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**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
HEALTH BENEFITS COMMITTEE**

**MINUTES OF MEETING**

**May 16, 2006**

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The Health Benefits Committee met on Tuesday, May 16, 2006, in the Lincoln Plaza North Building, 400 Q Street, Sacramento, CA.

The meeting was called to order at 10:55 a.m. with the following members present:

George Diehr, Chair  
Priya Mathur, Vice Chair (Excused)  
James Zerio representing Philip Angelides  
Marjorie Berte  
Rob Feckner  
Debbie Endsley representing Michael Navarro  
Tony Oliveira  
Charles Valdes  
Nick Smith representing Steve Westly

Other Board members present:

Michael Quevedo  
Kurato Shimada  
Robert Carlson  
Maeley Tom

**AGENDA ITEM 2 – ANNOUNCEMENT OF CLOSED SESSION TO DISCUSS 2007 HEALTH PLAN CONTRACT NEGOTIATIONS**

The Chair announced that the closed session to discuss 2007 Health Plan Contract Negotiations would be held upon adjournment of the Health Benefits Committee.

**AGENDA ITEM 3 – APPROVAL OF APRIL 18, 2006, HEALTH BENEFITS COMMITTEE MEETING MINUTES**

The April 18, 2006, Health Benefits Committee meeting minutes were approved as presented.

**AGENDA ITEM 4 – LEGISLATION**

Lisa Hammond, Chief, Office of Governmental Affairs, presented information on the following legislative items:



4A. AB 2242 (Torrico) – Vision Coverage for State Annuitants. This bill would establish a voluntary vision care program for specified state annuitants and their dependents, administered by the Department of Personnel Administration (DPA).

On **MOTION** by Debbie Endsley, **SECONDED** and **CARRIED**, the Committee recommended the Board support Assembly Bill 2242 (Torrico).

Roger Marxen, CSEA Retirees, spoke on this item.

4B. AB 2544 (Pavley) – Contracting Agencies: Employer Contribution for Annuitants. This bill would require the contribution for annuitants to be increased each year by five percent of the contribution for active employees, multiplied by the number of years the contracting agency has been subject to the unequal contribution formula. Current law allows a new PEMHCA contracting agency to establish a lesser contribution for annuitants than that for active employees. The lesser contribution is required to increase by five percent of the contribution for active employees each year.

This bill was information only and no action was required by the Committee.

Ann Craig, Placer County, spoke on this item.

#### **AGENDA ITEM 5 – MEDCO TRANSITION PLAN**

As an information item, Richard Krolak, Chief, Office of Health Plan Administration, gave a brief overview of the Medco Health Solutions, Inc. (Medco) transition plan and stated that all stages of the transition are currently on schedule. Medco was awarded the third-party administrator contract to administer the outpatient prescription drug program for the PERS Choice and PERSCare health plans effective July, 1, 2006.

#### **AGENDA ITEM 6 – REVIEW OF THE SELF-FUNDED PLANS SURPLUS RESERVES**

As an information item, Richard Krolak, Chief, Office of Health Plan Administration, presented a review of the self-funded health plans surplus reserves and projected surplus as of December 2006 and December 2007. For the 2005 and 2006 self-funded health plans rates, the Board applied a “one-third” rule as a rate reduction strategy. That is, one-third of estimated surplus assets would be applied to reduce rates. Based upon this spend down approach in the two prior years, the reserve projections indicate that the surpluses will reduce naturally as a percentage of total cost as trend and membership increases the projected risk-based capital levels. Because of this trend, staff and the actuarial consultant, Mercer Health and Benefits, recommended that no spend down adjustments be applied to the 2007 rates.

#### **AGENDA ITEM 7 – FIRST READING – BLUE CROSS OF CALIFORNIA SELECT PPO PROPOSAL**

Terri Westbrook, Assistant Executive Officer, Health Benefits Branch, introduced this informational agenda item as a first reading. Steven Scott, General Manager, Large Group Public Entities, Blue Cross of California (Blue Cross), provided a presentation on its new Preferred Provider Organization (PPO) health plan, Select PPO. The Select



PPO plan is a subset of the existing Blue Cross PPO network currently offered under PERS Choice and PERSCare, and is proposed as a lower cost third self-funded health plan PPO option for 2007. Blue Cross established a network that contains primary and specialty caregiver providers that represents over 50 percent of the existing Blue Cross PPO network, including all key specialties. There are currently over 23,000 physicians and allied providers in the Select network. The benefit plan design is no different than the benefit plan design for the PERS Choice program. The Select PPO would cover all California counties with the exception of Alameda, Del Norte, Marin, Placer and Solano. These counties were excluded because the predominance of Sutter affiliated providers did not meet the cost and quality criteria required for inclusion in the Select network.

The following people spoke on this item:

Roger Marxen, CSEA Retirees  
Tom Elkin, Consultant for CSEA Retirees  
J.J. Jelincic, CSEA – State

At this time, the Health Benefits Committee meeting recessed for lunch and reconvened at 1:00 p.m.

#### **AGENDA ITEM 8 – FIRST READING – POTENTIAL 2007 HEALTH PROGRAM BENEFIT DESIGN**

As an information item, Sandra Felderstein, Chief, Office of Health Policy and Program Support, presented, as a first reading, potential benefit design options for CalPERS Basic HMO and self-funded health plans for 2007. CalPERS staff requested our contracting health plans to provide Basic plan benefit design options with two goals: to encourage our members to seek care in the most cost-effective, clinically beneficial setting; and, to make our benefit design comparable to the industry median for large California employers and large national public agency employers.

The following people spoke on this item:

Roger Marxen, CSEA Retirees  
Tom Elkin, Consultant for CSEA Retirees  
Donna Snodgrass, CSEA – State  
Neal Johnson, SEIU, Local 1000  
Yvonne Walker, SEIU, Local 1000

#### **AGENDA ITEM 9 – FIRST READING – BLUE SHIELD PROPOSAL: SERVICE AREA AND BENEFIT DESIGN ALTERNATIVES FOR CERTAIN EXCLUSIVE PROVIDER ORGANIZATION AND DIRECT CONTRACT COUNTIES**

Terri Westbrook, Assistant Executive Officer, Health Benefits Branch, introduced this informational item as a first reading. Paul Markovich, Senior Vice President, Large Group Business Unit and Kathlyn Mead, Vice President, CalPERS Business Section of Blue Shield of California presented a proposal to modify the current Blue Shield HMO service area effective January 1, 2007. This modification would include: 1) discontinuing Blue Shield's HMO product in five Exclusive Provider Organization counties (Colusa, Lake, Mendocino, Plumas and Sierra); and 2) offering a new Blue Shield Point of Service plan in eight Direct Contract counties (Butte, El Dorado, Glenn,



Mariposa, Napa, San Luis Obispo, San Mateo and Sonoma), excluding Medicare Supplement members, in lieu of an HMO option.

The following people spoke on this item:

Donna Snodgrass, CSEA – State  
Yvonne Walker, SEIU, Local 1000  
Neal Johnson, SEIU, Local 1000

#### **AGENDA ITEM 10 – FIRST READING – BLUE SHIELD OF CALIFORNIA – THREE-YEAR HMO CONTRACT RENEWAL**

Terri Westbrook, Assistant Executive Officer, Health Benefits Branch, introduced this informational item as a first reading. Paul Markovich, Senior Vice President, Large Group Business Unit and Kathlyn Mead, Vice President, CalPERS Business Section of Blue Shield of California presented their proposed three-year business plan to demonstrate the value of a continued partnership and multi-year contract. The current three-year contract with Blue Shield as the exclusive CalPERS Health Benefits Program HMO network plan expires on December 31, 2006.

Neal Johnson, SEIU, Local 1000, spoke on this item.

#### **AGENDA ITEM 11 – REGIONAL PRICING UPDATE**

As an information item, Sandra Felderstein, Chief, Office of Health Policy and Program Support, gave an overview of the analysis of the impact of regional pricing on contracting agency retention. Staff compared this year's cost factors for the five regions to last year's, and looked for any significant changes in county and regional membership. The analysis found no statistically valid changes in the county cost factors, the cost factors for the five regions, or county and regional membership. Mercer Human Resources Consulting provided staff with an outside independent valuation. Mercer found CalPERS' analysis is complete and accurate and the 2005 regions and county regional assignments are still appropriate for 2007.

#### **AGENDA ITEM 12 – SECOND READING – GASB 45 FUNDING – INCREASE IN CONTRACTING AGENCIES' CONTINGENCY RESERVE FUND ADMINISTRATIVE FEE FOR FISCAL YEAR 2006/2007**

Ken Marzion, Assistant Executive Officer, Actuarial and Employer Services Branch, provided an update on the GASB 45 Funding – Increase in Contracting Agencies Contingency Reserve Fund Administrative Fee for Fiscal Year 2006/2007.

On **MOTION** by Rob Feckner, **SECONDED** and **CARRIED**, the Committee recommended the Board approve, as permitted in Government Code section 22901, an increase, for one year only, to the contracting agencies' Contingency Reserve Fund Administrative Fee from the proposed rate of 0.27% to 0.44% for Fiscal Year 2006/2007 to provide CalPERS with the funding necessary to assist contracting agencies' compliance with statement number 45 of the Governmental Accounting Standards Board.



The following people spoke on this item:  
Ann Craig, Placer County  
Neal Johnson, SEIU, State Council

### **AGENDA ITEM 13 – MEDICARE PART D OPTIONS FOR 2007**

Sandra Felderstein, Chief, Office of Health Policy and Program Support, presented five Medicare Part D recommendations for 2007. The recommendations are: 1) not reapply for the Retiree Drug Subsidy (RDS); 2) approve CalPERS' participation in Medicare Part D through the use of health plan based Prescription Drug Plans (PDPs) for members not enrolled in Kaiser Senior Advantage; 3) negotiate with CalPERS' HMO health plans and our self-funded PPO health plans' Pharmacy Benefits Manager to develop a PDP and to use payments to decrease generic and brand formulary prescription drug co-payments and health plan premiums; 4) continue to provide the Kaiser MA-PD plan for Kaiser Senior Advantage enrollees; and, 5) re-evaluate CalPERS' Part D options for 2008.

On **MOTION** by Charles Valdes, **SECONDED** and **CARRIED**, the Committee deferred this item to the June 20, 2006, Health Benefits Committee meeting.

Mike Richard, CSEA, Retired Division, spoke on this item.

At this time, the Health Benefits Committee meeting took a ten minute recess and reconvened at 3:25 p.m.

### **AGENDA ITEM 14 – LONG-TERM CARE PROGRAM 2006 RATES**

Richard Krolak, Chief, Office of Health Plan Administration, provided updated information on the 2006 rates for the Long-Term Care Program. The Long-Term Care Advisory Committee met on May 4, 2006 and after reviewing the previously approved 2006 rates, proposed an additional adjustment to the rates to ensure that no rates decrease as compared to corresponding 2005 rates; and, that there be a minimum 15% differential between 6-year benefit plan rates and lifetime benefit plan rates.

On **MOTION** by Marjorie Berte, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the proposed 2006 Long-Term Care Program premium rates as recommended by the Long-Term Care Advisory Committee.

### **AGENDA ITEM 15 – UPDATE ON LONG-TERM CARE PROGRAM 2005 AND EARLIER RATES**

As an information item, Richard Krolak, Chief, Office of Health Plan Administration, provided an update on the Long-Term Care Program 2005 and Earlier Rates. The Long-Term Care Advisory Committee and CalPERS staff will continue to analyze possible mitigation strategies and will present a first reading of proposed mitigation strategies at the June 20, 2006, Health Benefits Committee meeting.

### **AGENDA ITEM 16 – ASSISTANT EXECUTIVE OFFICER REPORT**

Terri Westbrook had no items to report.



## **AGENDA ITEM 17 – PROPOSED AGENDA FOR JUNE 20, 2006, HEALTH BENEFITS COMMITTEE MEETING**

The following changes were made to the proposed June 20, 2006, agenda:

- Medicare Part D Options for 2007 was added to the agenda
- Update on Long-Term Care Program 2005 and Earlier Rates was changed to First Reading – Long-Term Care Program 2005 and Earlier Rates

## **AGENDA ITEM 18 – PUBLIC COMMENT**

The Committee heard comment from Ray Snodgrass, CDF Firefighters, regarding the agenda items presented at the Health Benefits Committee.

The meeting was adjourned at 3:40 p.m.

**The next meeting of the Committee is scheduled for June 20, 2006, in Sacramento, California, following adjournment of the Benefits and Program Administration Committee.**

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FRED BUENROSTRO  
Chief Executive Officer